

## Part 1

### Section A:

#### Questions 1 – 20

**The following statements are either true or false. Select the most appropriate answer and darken the oval under A for true and B for false.**

1. An automatic 4-month extension of time to file an individual return can be obtained by either filing Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, or by making the required tax payment by credit card.
2. Mary's spouse, John, died in an auto accident in 1999. She has not remarried and she supported their 5-year-old son all year. She qualifies to file as a "qualifying widow with dependent child" for the year 2000.
3. Jennifer expects to owe \$1,500 in tax for 2000. Her tax liability for 1999 was \$0. Jennifer is not required to pay estimated tax for 2000.
4. Taxable disability payments are reported as wages until the recipient reaches minimum retirement age. After minimum retirement age is reached, the payments are reported as pension income.
5. A gift valued at \$60 received from a savings institution for opening a savings account is taxable interest income.
6. Farming businesses on Schedule F, 1040 are subject to the at-risk rules.
7. Repainting and fixing leaks in rental property are not currently deductible as repairs if they are part of an extensive remodeling of the property.
8. Income received by an individual from rental (not including self rentals) of an office building, where no significant services are provided to the tenant, should be reported on Schedule C, Profit or Loss From Business.
9. Dr. Jay purchased an apartment building as an investment in 2000. The apartments are fully furnished. He can elect to deduct, as a Section 179 deduction, up to \$20,000 of the portion of the cost allocable to the furnishings.
10. Martha invested in a mutual fund. This year the mutual fund declared a dividend which Martha elected to leave in the fund. This dividend is not reportable this year because Martha didn't receive the money yet.

- 11.** If a discount is received for early payment of a mortgage loan, the amount of the discount is canceled debt that should be reported as income.
- 12.** Like-kind exchanges need not be reported on either party's tax return since they are nontaxable.
- 13.** In 2000, Jerry was required to use his car for his employer. His employer's mileage reimbursement was \$0.15/mile. If Jerry's actual expenses are more than the reimbursement, he can deduct the excess amount on Schedule C, Profit or Loss From Business.
- 14.** As a result of an accident, Thomas is required by his doctor to use a wheelchair. He arranges to have a ramp built at his front door and widens all the doorways to accommodate his wheelchair. The value of his house is not increased. The total cost of these improvements is deductible as a medical expense.
- 15.** Alice paid her mother's hospital bill. Her mother is not her dependent. Alice can deduct the hospital bill as a medical expense on her return because she paid it on behalf of a family member.
- 16.** White bib overalls worn by a professional painter are work clothes or uniforms deductible as miscellaneous itemized deductions.
- 17.** John and Joan Smith both work full time. Their dependent children, ages 4 and 6, attend day care where the expense for 2000 was \$5,200. Box 10 of John's W-2 shows his dependent care benefit received was \$5,000. Form 2441, Child and Dependent Care Expenses, is not required because their day care expense exceeded the dependent care benefits received.
- 18.** Individuals who pay AMT, Alternative Minimum Tax, may take a credit against regular income tax in future years for only the portion of the AMT that is attributable to deferral items, such as depreciation.
- 19.** John and Marie will file a joint return for 2000. They own real estate in France. For convenience in paying the occasional bill associated with this property, they maintain a savings account at a Paris bank. In January 2001, they received a statement from the bank reporting the French equivalent of \$750 interest credited to their account and the French equivalent of \$127 in income tax paid to the French government. This statement's format is prescribed by the French government and is identical to the one provided to French customers of the bank. They may take a foreign tax credit of \$127 directly on Form 1040 without filing Form 1116. Note that this is their only income from sources not in the continental U.S.

**20.** Mr. Smith and Mr. Jones own competing greenhouses. Mr. Smith has decided to focus exclusively on flower plants and Mr. Jones exclusively on vegetable plants. They agree to swap Mr. Smith's inventory of vegetable plants for Mr. Jones's inventory of flower plants. Since the Fair Market Value of the vegetable plants equals the Fair Market Value of the flower plants, this transaction is a like-kind exchange.

**Turn to the next page for Part 1, Section B.**

## Part 1

### Section B:

#### Questions 21 – 45

The following questions are multiple choice. Select the most appropriate answer and darken the oval under the corresponding letter on the answer sheet.

21. In which of the following situations is **no** return required to be filed?
- A. Single, filing status single, under age 65, gross income \$10,000
  - B. Married, joint filing status, both spouses under age 65, gross income \$13,000
  - C. Single, filing status single, age 70, gross income \$8,000
  - D. Married, separate filing status, age 65, gross income \$5,000
22. Which of the following statements regarding extensions of time to file is correct?
- A. An automatic 2-month extension can be obtained by filing Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.
  - B. An additional automatic 4-month extension can be obtained by filing Form 2688, Application for Additional Extension of Time To File U.S. Individual Income Tax Return.
  - C. A penalty for late payment may still be charged even if an extension is granted.
  - D. An extension request for a 2000 individual income tax return must be filed by August 15, 2001.
23. John and Joanne are the sole support of the following individuals, all U.S. citizens, none of whom lives with them: None of these individuals file a joint return or have any gross income.
- Jennie, John's mother
  - Julie, Joanne's stepmother
  - Jonathan, father of John's first wife

How many exemptions for dependents may John and Joanne claim on their joint return for 2000?

- A. 3
- B. 2
- C. 1
- D. 0

**24.** John is the sole support of his mother. To claim her as a dependent on his Form 1040A for 2000, she must be a resident of which of the following countries for some part of calendar year 2000?

- A.** United States
- B.** Mexico
- C.** Canada
- D.** Any of the above

**25.** Marge Godfrey sold her investment property March 30, 2000 at a gain of \$50,000. Marge expects to owe \$10,000 in additional income taxes on this sale. She had a tax liability of \$900 for 1999 and will have no withholding for 2000. Marge's first estimated tax payment is due on what date?

- A.** April 30, 2000
- B.** April 15, 2000
- C.** January 31, 2001
- D.** June 15, 2000

**26.** Matthew Kennedy received a dividend from Mayflow Corporation. Matthew has elected, using Mayflow's dividend reinvestment plan, to purchase additional stock at FMV with the dividend received. The dividend was \$1,500 and the FMV of the stock purchased was \$1,475. A \$25 service charge was applied to this transaction. What must Matthew report as dividend income on his tax return for 2000?

- A.** \$0
- B.** \$1,500
- C.** \$1,525
- D.** \$1,475

**27.** During 2000, Jack sold 500 shares of stock. On December 31, 2000 he received a capital gain distribution of \$750 from his mutual fund. He owned his mutual fund shares since June 30, 1999. How should Jack report the capital gain distribution on his 2000 tax return?

- A.** \$750 short-term capital gain
- B.** \$750 long-term capital gain
- C.** \$0
- D.** \$750 ordinary dividend

28. Emily bought 50 shares of stock in 1998 for \$500. In 1999, she received a return of capital of \$100. She received an additional return of capital of \$50 in 2000. What must Emily report as long-term capital gain on her tax return for 2000?

- A. \$150
- B. \$50
- C. \$100
- D. \$0

29. Which of the following is **not** rental income in the year received?

- A. Security deposit, equal to one month's rent, to be refunded at the end of the lease if the building passes inspection
- B. Payment to cancel the remaining lease
- C. Repairs paid by the tenant in lieu of rent
- D. January 2001 rent received December 2000

30. When Joe's financial institution offered a substantial discount of \$5,000 for early payment of his home mortgage, he borrowed from a family member to take advantage of this offer. How should Joe treat this discount transaction?

- A. No actions or reporting required
- B. Report \$5,000 on line 21, Other Income, on Form 1040
- C. Reduce his home mortgage interest deduction by \$5,000
- D. Report \$5,000 original issue discount as interest income

31. In 2000, Billy's father deeded him 400 acres of land. The fair market value (FMV) on the date of the transfer was \$350,000. His father had paid \$40,000 for the land. No gift tax was paid on the transfer. When Billy's father died six months later, the fair market value of the land was \$400,000. What is Billy's basis in the 400 acres?

- A. \$400,000
- B. \$350,000
- C. \$40,000
- D. \$260,000

32. To determine net capital gains/losses for the year:

- A. Net all capital gains, both long-term and short-term, together
- B. Net short-term gains/losses and long-term gains/losses separately, then combine
- C. Net short-term gains/losses and long-term gains/losses and report only any net gains
- D. Net all gain transactions together and all loss transactions together, then combine

- 33.** In which situation would local transportation expenses **NOT** be deductible?
- A.** From the regular or main job to the second job
  - B.** From the regular or main job to a temporary work location
  - C.** From the second job to a temporary work location
  - D.** From home (residence) to the second job on your day off from your main job
- 34.** For 8 months of each year George lives in Ocala, Florida training horses for several owners and earning approximately \$20,000. He rents an apartment for the 8 months. He stays in motels or rented rooms at various racetracks in other states for the other 4 months of the year during horse racing season and earns approximately \$10,000. What part of George's travel expenses can be deducted?
- A.** All meals and lodging for the entire year
  - B.** Only his meals and lodging for the 4 months he is away from his tax home, Ocala
  - C.** None of his meals or lodging because he has no tax home
  - D.** One-third of his total meals and lodging because he is away from his tax home one-third of the year
- 35.** Each month Betsy's employer gives her \$600 for her business expenses. Sometimes Betsy spends more than the \$600. Once a year, she negotiates the amount of expense money with her employer but she is not required to submit any proof of how she spends the \$600 per month. How should Betsy report her expenses on her return?
- A.** No reporting required
  - B.** Deduct all of her expenses on Schedule C, Profit or Loss From Business
  - C.** Deduct all of her expenses on Form 2106, Employee Business Expenses
  - D.** Deduct her expenses in excess of \$600 per month on Form 2106
- 36.** Which of the following is a medical deduction?
- A.** Legal abortion
  - B.** Maternity clothing
  - C.** Health club dues advised by your doctor
  - D.** None of the above
- 37.** Which of the following types of taxes can be deducted on Schedule A?
- A.** Transfer taxes on the sale of a residence
  - B.** A tax on a motor vehicle based on engine horsepower
  - C.** A tax on a motor vehicle based on vehicle weight
  - D.** None of the above

38. Which of the following would disqualify points from being fully deductible in the year paid?

- A. The points were computed as a percentage of the amount of the mortgage
- B. The loan proceeds were used to purchase a second home
- C. The payment of points is common in your area
- D. The points are clearly stated on the settlement statement

39. In September of 2001, two months after Jim and Betty finished constructing a barn, it was completely destroyed by a hurricane. Their adjusted basis in the barn was its cost, \$40,000. It was not covered by insurance. The entire community has been declared a federal disaster area. Jim and Betty may elect to do which of the following?

- A. Deduct \$40,000 in either 2001 or 2002
- B. Deduct \$40,000 in either 2000 or 2001
- C. Deduct \$40,000 in 2000, or 2001, or 2002
- D. No deduction in any year because the loss is personal

40. Which of the following is **NOT** a test to determine if a child is a qualifying child for the Earned Income Tax Credit (EITC)?

- A. Relationship
- B. Age
- C. Residency
- D. Support

41. Which of the following is a disqualification for the Child and Dependent Care Credit?

- A. Head of household filing status
- B. Making child care payments to relatives
- C. Paying for care for your spouse who is not physically or mentally able to care for himself/herself while you work
- D. Child care only while you perform unpaid volunteer work

42. In which situation would Janice **NOT** be required to file Schedule H, Household Employment Taxes, for the year 2000?

- A. Paid \$1,200 wages to Cynthia for babysitting in Janice's home
- B. Withheld \$100 Federal income tax from payments to her yard worker
- C. Paid \$2,000 to her mother for housekeeping
- D. Paid household help, other than her mother, \$1,000 for the period July, August, and September

**43.** Which of the following conditions would **NOT** prevent an individual from qualifying for Earned Income Credit for the year 2000?

- A. Married filing separately filing status
- B. Being a qualifying child of another person
- C. Age 25
- D. Investment income of more than \$2,400

**44.** In 2000, Jonathan Smith paid his educational expenses at a community college where he completed his freshman year and began his sophomore year. His father, John Smith, provides more than half of the support for Jonathan and claims an exemption for him on his tax return. Which of the following is correct?

- A. Jonathan is eligible to take the Hope education credit on his 2000 tax return
- B. John is eligible to take the Hope education credit on his 2000 tax return
- C. Jonathan and John may split the Hope education credit between their 2000 tax returns
- D. Neither may take the Hope education credit

**45.** Which of the following is **NOT** a tax preference item or an adjustment to taxable income for alternative minimum tax purposes?

- A. Addition of personal exemptions
- B. Addition of the standard deduction (if claimed)
- C. Addition of all itemized deductions (if claimed)
- D. Subtraction of any refund of state and local taxes included in gross income

**Turn to the next page for Part 1, Section C.**

## Part 1

### Section C:

#### Questions 46 – 80

The following questions may require some computation. Select the most appropriate answer and darken completely the oval under the corresponding letter on the answer sheet.

**46.** Debby broke her leg this past year and was unable to work for three months. During this time she received \$2,500 in sick pay from her employer. She also received \$1,000 from her personally purchased accident policy. How much of these benefits is taxable income to Debby?

- A. \$-0-
- B. \$2,500
- C. \$1,000
- D. \$3,500

**47.** Rev. Elvin Snider is the ordained minister at Crossroads United Methodist Church. His salary on his Form W-2 is \$20,000. He also receives a \$12,000 housing allowance. His housing costs for the year are \$14,000. What is Rev. Snider's self-employment income?

- A. \$34,000
- B. \$32,000
- C. \$20,000
- D. None of the above

**48.** Peter owned a cottage on the lake that he bought in 1999. In 2000, he rented the cottage for 10 days to a stranger and used the cottage for 20 days for his own personal use. The cottage was not used the rest of the year. Peter had rental income of \$1,000 and he paid \$600 for repairs. How should he report these activities on his 2000 return?

- A. \$1,000 income, \$600 expense
- B. \$333 income, \$200 expense
- C. \$0 income, \$0 expense
- D. \$667 income, \$400 expense

**49.** Alex started his own welding business in 2000. He paid \$8,000 for a truck, contributed \$15,000 cash and paid \$20,000 for tools for the business. His bank loaned \$50,000 to buy a building for the business. The building secures the loan. What is Alex's at-risk amount for this activity?

- A.** \$53,000
- B.** \$43,000
- C.** \$93,000
- D.** \$103,000

**50.** Clyde is a degree candidate at a local college. During the fall semester he received a \$3,000 scholarship from a local foundation. Clyde spent the entire \$3,000 and another \$1,500 from a student loan during this semester. He paid the following expenses: tuition \$2000, books \$500, and room and board \$2,000. How much of the \$3,000 scholarship should Clyde report as income?

- A.** \$500
- B.** \$-0-
- C.** \$3,000
- D.** \$1,000

**51.** Gordon, age 70, is retired and works part-time as a security guard earning \$8,000. He received \$5,000 interest from a saving account and \$2,500 interest from tax-exempt municipal bonds. His Social Security benefits were \$12,000 and his taxable pension was \$6,000. To determine if any of his Social Security is taxable, Gordon should compare how much of his income to the \$25,000 base amount?

- A.** \$27,500
- B.** \$21,500
- C.** \$19,000
- D.** \$25,000

**52.** How much income should Devin, who uses the cash method of accounting, report on his 2000 return from the following transactions?

- \$300 was garnisheed from his wages to pay his debts
- \$500 (gross) paycheck received December 28, 2000 but not cashed until January 2, 2001
- \$900 (gross) wages paid directly to his mother at his request

- A.** \$1,200
- B.** \$1,700
- C.** \$1,400
- D.** \$800

**53.** Beth and Donnie purchased a house to use as rental property. They paid the following amounts: \$100,000 cash, assumption of an existing \$25,000 mortgage, title search \$500, recording fees of \$100, points for their new loan of \$1,000, and the seller's part of the property taxes of \$1500. The seller did not reimburse them for the property taxes. What is their cost basis in the house?

- A.** \$100,000
- B.** \$125,000
- C.** \$127,100
- D.** \$128,100

**54.** Rick, an electrician, needed a new service van. He was a frequent customer of Eldon's Grill. Eldon wanted to remodel his kitchen. Eldon offered to sell his catering van, Fair Market Value \$10,000, to Rick for \$8,000 and pay \$1,000 cash in return for Rick's rewiring his kitchen. If Rick agrees to do the work under these terms, what will be his basis in the van received?

- A.** \$10,000
- B.** \$11,000
- C.** \$8,000
- D.** \$9,000

**55.** Ted and William agreed to trade apartment buildings with Ted agreeing to pay William \$10,000 cash. Ted's basis in his apartment building is \$40,000. William's basis in his apartment building is \$50,000. What is Ted's basis in his new apartment building?

- A.** \$50,000
- B.** \$40,000
- C.** \$10,000
- D.** None of the above

**56.** Jane purchased 300 shares of stock five years ago for \$20 a share. The directors voted a 3 for 1 stock split. After the split, Jane had 900 shares. What is Jane's basis per share after the split?

- A.** \$60.00
- B.** \$20.00
- C.** \$6.67
- D.** \$5.00

**57.** When Chris bought his motorcycle, he paid \$500 cash and took over payments when the principal balance was \$5,000. He added accessories that cost \$1,000. Ten years later, a collector paid Chris \$8,000 for the motorcycle. Chris applied the entire \$8,000 to the \$10,000 purchase price of a new cycle. What are the tax consequences to Chris of these transactions?

- A.** \$0 taxable gains because the cycle was a personal asset
- B.** \$2,500 taxable gain
- C.** \$1,500 taxable gain
- D.** \$1,500 gain is not taxable; basis in new cycle is reduced to \$8,500

**58.** Rudy purchased 100 shares of publicly traded stock January 2, 2000 for \$1,000. He sold all his shares December 31, 2000 for \$1,500. On January 4, 2001, the settlement date, the stocks were actually delivered and payment received in Rudy's account. How and when should Rudy report this sale?

- A.** \$500 long term capital gain on 2000 return
- B.** \$500 short term capital gain on 2000 return
- C.** \$500 long term capital gain on 2001 return
- D.** \$500 short term capital gain on 2001 return

**59.** Sharon sold two collections during 2000. These were her only sales. Determine the amount and character of her gains/losses on these sales.

- Coin collection she began as a child with a basis of \$1,000, sold for \$5,000
- Collection of original short stories she wrote in 1997, sold for \$20,000

- A.** \$20,000 long-term capital gain
- B.** \$24,000 long-term capital gain
- C.** \$4,000 long-term capital gain and \$20,000 ordinary income
- D.** \$24,000 ordinary income

**60.** During 2000, Nicholas made the following dispositions of property:

- Sold publicly traded stock, which cost \$2,000 and had been held for 2 years, for \$3,000
- Sold land, which cost \$20,000 and had been held for 9 months, to his brother for \$16,000

How should Nicholas report these dispositions on his 2000 return?

- A.** \$1,000 long-term capital gain
- B.** \$3,000 long-term capital loss
- C.** \$3,000 short-term capital loss
- D.** \$3,000 ordinary loss

**61.** When Amelia bought her first home in 1997, she paid \$100,000 plus \$1,000 closing costs. In 1998, she added a deck that cost \$5,000. Then, in July of 2000, a real estate dealer accepted her house as a trade-in and allowed her \$125,000 toward a new house priced at \$200,000. How should Amelia report this transaction on her 2000 return?

- A.** \$19,000 long-term capital gain
- B.** No reporting because the trade is not a sale
- C.** \$0 taxable gain and reduce her basis in her new house by \$19,000
- D.** No reporting required

**62.** Vanessa inherited 100 shares of stock from her grandmother when her grandmother died on December 10, 1999; the fair market value of the stock was \$50 per share. Her grandmother paid \$40 per share when she purchased the stock July 1, 1999. If Vanessa sells all 100 shares for \$60 per share on June 30, 2000, how should she report the sale on her return for 2000?

- A.** \$1,000 short-term capital gain
- B.** \$2,000 short-term capital gain
- C.** \$1,000 long-term capital gain
- D.** \$2,000 long-term capital gain

**63.** Zack had the following capital transactions during 2000:

- 2/1/2000 - bought 10 shares of ABC stock at \$100 per share
- 6/1/2000 – sold 100 shares of PDQ stock for \$50 per share; was purchased 2/1/1999 at \$100 per share
- 9/9/2000 – sold the 10 shares of ABC stock for \$150 per share

How much can Zack deduct as a capital loss on his return for 2000? (His taxable income is \$30,000.)

- A.** \$4,500 net long-term capital loss; \$0 carryover
- B.** \$3,000 net long-term capital loss; \$1,500 long-term capital loss carryover to 2001
- C.** \$0 net gain or loss; \$4,500 long-term capital loss carryover to 2001
- D.** \$3,000 net short-term capital loss; \$1,500 short-term capital loss carryover to 2001

**64.** The original owner of Felix Plumbing Company stock paid \$10,000 for his 100 shares. Stock in Felix Plumbing is qualifying small business stock under Section 1244. The stockholder also made a \$2,000 contribution to capital of Felix Plumbing for a total investment of \$12,000. He then sold the 100 shares for \$9,000. What is the amount and character of loss that he can deduct on his return for the year of sale?

- A.** \$3,000 ordinary loss
- B.** \$3,000 capital loss
- C.** \$1,000 capital loss
- D.** \$2,500 ordinary loss and \$500 capital loss

**65.** Thomas is sole proprietor of a small company. He recently negotiated a substantial sale. Following the signing of the contract, Thomas took the clients to dinner at a cost of \$150. What is Thomas's deductible entertainment expense on his Schedule C for 2000?

- A.** \$112.50
- B.** \$0
- C.** \$150
- D.** \$75

**66.** Consider the following expenditures and determine the total amount that would be deducted as adjustments to income in arriving at adjusted gross income (assuming no income limitations) on Form 1040, Individual Income Tax Return:

- \$1,000 interest paid on student loan
- \$2,000 paid to a SIMPLE retirement plan
- \$100 jury duty pay given to the employer
- \$500 expenses from the nonbusiness rental of personal property

- A.** \$3,600
- B.** \$2,600
- C.** \$3,100
- D.** \$1,100

**67.** Of the following medical expenses paid by Bill during 2000, how much can he deduct (before limitations)?

- \$1,000 for his wife Mary's hospitalization in 1999; they were married in 2000
- \$1,000 for Mary's daughter's braces; she is Bill and Mary's dependent in 2000
- \$2,000 for Bill's son's 1999 medical treatment; he was Bill's dependent in 1999 but does not qualify for 2000

- A.** \$4,000
- B.** \$2,000
- C.** \$1,000
- D.** \$0

**68.** Carla borrowed \$100,000 to buy land for investment. Her income sources for the year include: \$3,000 interest, \$1,000 dividends, and \$4,000 royalties. How much of the \$5,000 interest expense paid on the land loan can she deduct this year?

- A.** \$8,000
- B.** \$4,000
- C.** \$3,000
- D.** \$5,000

**69.** In 2000, John donated \$100 to the United Way, \$200 to Veterans of Foreign Wars, and \$300 to his neighbor whose home was destroyed by a tornado. How much is John's deduction for charitable contributions for 2000?

- A.** \$300
- B.** \$400
- C.** \$500
- D.** \$600

**70.** In 2000, Janice volunteered at her local art museum where she conducted art-education seminars. She was required to wear a blazer that the museum provided, but she paid the dry cleaning costs of \$200 for the year. The blazer was not suitable for everyday use. Her travel to and from the museum was 1000 miles for the year. She estimates the value of the time she contributed during the year at \$2000 (\$20/hr x 100 hours). Her Schedule A deduction for charitable contributions is which of the following?

- A.** \$2,340
- B.** \$2,140
- C.** \$140
- D.** \$340

**71.** Joe has the following records of charitable contributions he made in 2000. How much can he deduct on Schedule A, Itemized Deductions?

- \$300 check to local church but no written acknowledgement
- \$600 by payroll deduction of \$50 per month to United Way
- \$400 fair market value of furniture to a qualifying shelter with receipt and acknowledgement from the shelter dated November 1, 2001

- A.** \$1,300
- B.** \$900
- C.** \$600
- D.** \$1,000

**72.** Jack's antique car caught fire and was totally destroyed. The car was appraised for \$22,500. Jack only had it insured for \$15,000 since this was more than enough to cover his adjusted basis of \$9,000. He decided not to replace the car. What should Jack report on his tax return?

- A.** Deduct a loss of \$7,500
- B.** Deduct a loss of \$6,000
- C.** Report income of \$6,000
- D.** None of the above

**73.** Rose, a single parent, has two children ages 10 and 13. She earned \$25,000 in 2000 and her investments earned \$2,000 interest income. Taxable income on her 2000 return was \$18,000. After applying her withholding, Rose's tax due was \$1,000. Using the following earned income credit information, determine Rose's balance due/overpayment for 2000:

- Credit figured using \$27,000 modified Annual Gross Income = \$900
- Credit figured using \$25,000 earned income = \$1,300
- Credit figured using \$18,000 taxable income = \$2,800

- A.** \$100 balance due
- B.** \$1,800 overpayment (refund)
- C.** \$300 overpayment (refund)
- D.** \$0, carryover \$300 credit to next year

74. Robin, an employee, had the following unreimbursed employee expenses in 2000:

- \$100 professional license renewal
- \$ 75 subscription to professional journal
- \$500 business liability insurance

Her adjusted gross income was \$40,000. What net amount can Robin deduct?

- A. \$675
- B. \$0
- C. \$575
- D. \$175

75. Heather spent \$2,500 for lottery tickets during the year. She saved all her tickets. She won \$2,000 in November on a \$1 ticket. Heather's adjusted gross income is \$50,000. How much of her lottery ticket costs can she deduct as an itemized deduction?

- A. \$1
- B. \$0
- C. \$2,500
- D. \$2,000

76. Marc and Mandy's dependent children, ages 3 and 4, attend day care where the total expense for 2000 was \$5,200, \$2,600 per child. Marc earned \$20,000 and Mandy earned \$15,000. How much childcare credit can they claim for 2000?

Adjusted Gross Income	Percentage for credit
\$15,000	27
\$20,000	24
\$35,000	20

- A. \$1,296
- B. \$1,040
- C. \$1,404
- D. \$960

**77.** Dennis and Martha sell their lake house (which they have owned for 10 years and spend each summer in) for \$250,000. Their original cost was \$175,000 and they had improvements of \$25,000. They have never used the house as a business or rental property. They agreed to take \$50,000 down and finance the balance. Monthly payments are to begin next year. How much capital gain must they report in the year of sale?

- A.** \$10,000
- B.** \$50,000
- C.** \$15,000
- D.** \$ -0-

**78.** You sold a residential lot two years ago and reported the \$20,000 capital gain on the installment method. In the third year of payments the buyer defaulted and you had to repossess the lot. In the first year you reported \$5,000 ( $\$10,000 \times 50\%$ ) and \$3,000 ( $\$6,000 \times 50\%$ ) in the second year. No payments were received in the third year and you spent \$2,500 in legal fees to repossess the property. What is the taxable gain you must report on the repossession?

- A.** \$-0-
- B.** \$9,500
- C.** \$8,000
- D.** \$4,000

**79.** The owner of unimproved land with a basis of \$40,000 sold the property for \$100,000 in 1995. The seller accepted a note for the entire \$100,000 sales price. In 2000, when the buyer still owed \$10,000, the note was sold for \$9,000 cash. How should the disposition of the note be reported on the seller's 2000 return?

- A.** \$5,000 capital gain
- B.** \$5,000 ordinary income
- C.** \$2,000 capital gain
- D.** \$1,000 capital loss

**80.** When Fred loaned \$2,000 to his brother in 1999, his brother signed a note and made monthly payments until he was injured in an accident in March of 2000. Fred is still owed \$500 and his brother, who is no longer able to work, has declared bankruptcy. Fred had also guaranteed his brother's bank loan as a favor to his brother and was required to pay off the \$800 loan balance. Fred, a cash method taxpayer, is also owed \$500 rent by a former tenant. How much bad debt deduction can Fred take on his 2000 return?

- A.** \$1,800
- B.** \$500
- C.** \$1,000
- D.** \$1,300

**End of Part 1.**